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1617	UNITED STATES	DISTRICT COURT
18	SOUTHERN DISTR	ICT OF CALIFORNIA
19	DATAQUILL LIMITED,	Case No. 3:08-cv-00543-IEG-BGS
20	Plaintiff,	HTC CORPORATION'S MEMORANDUM OF POINTS AND
21	V.	AUTHORITIES IN SUPPORT OF MOTION TO EXCLUDE THE
22	HIGH TECH COMPUTER CORP.,	OPINIONS OF JOSEPH GEMINI PURSUANT TO FEDERAL RULE OF
23	Defendant.	EVIDENCE 702 [UNDER SEAL] Date: November 18, 2011
24	HTC CORPORATION	Time: 9:00 a.m.
25	Counterclaimant, v.	Complaint filed: March 24, 2008 Location: Courtroom 1
26	DATAQUILL LIMITED,	Judge: Hon. Irma E. Gonzalez Magistrate
27	Counterdefendant.	Judge: Hon. Bernard G. Skomal Trial Date: Not Set
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1	Statutes	
2	35 U.S.C. § 284	6
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1	I. INTRODUCTION
2	DataQuill's damages expert Joseph Gemini believes
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7	In arriving at this extraordinary
8	conclusion, Mr. Gemini commits a number of fundamental errors, each of which requires that his
9	opinion be excluded from any trial of this matter.
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II. STATEMENT OF FACTS 1 2 In this case, DataQuill alleges infringement of two patents, both of which were subject to 3 reexamination proceedings: 4 U.S. Patent No. 6,058,304 ("the '304 patent") entitled "Data Entry System," issued on May 2, 2000; Reexamination Certificate issued on 5 April 13, 2010 as U.S. Patent No. 6,058,304 C1 ("the '304 C1 patent"); and 6 U.S. Patent No. 7,139,591 B2 ("the '591 patent") entitled "Hand Held Telecommunications Data Entry Device," issued on November 21, 2006; Reexamination Certificate issued on October 27, 2009 as U.S. Patent No. 8 7,139,591 C1 ("the '591 C1 patent"). 9 See Dkt. No. 1 (Complaint for Patent Infringement), at ¶¶ 2, 9; Dkt. No. 42 (Notification of 10 Issuance of Reexam. Cert.). The patents-in-suit stem from the same original application. The 11 '591 patent is a continuation of the '304 patent. As a result of reexamination, certain claims of 12 the '304 and '591 patents were cancelled or amended, and certain new claims were added. 13 On July 16, 2011, DataQuill served the Expert Report of Joseph Gemini ("Gemini Rep.") 14 regarding its purported damages resulting from the alleged infringement of the asserted claims of 15 the patents-in-suit. See Declaration of William Hicks ("Hicks Decl."), Ex. 1 (Gemini Rep.). 16 A. **Accused HTC Products And Functionality** 17 HTC makes and sells smartphones. DataQuill generally contends that HTC devices that 18 run the Android OS platform and HTC devices utilizing the Microsoft Windows 6.5 and 7.0 OS REDACTED 19 platform infringe the patents-in-suit. 20 21 22 23 24 25 26 27 References in brackets [] are to the consecutively paginated exhibits filed concurrently, and are 28 provided for convenience of the Court.

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Although DataQuill contends that the accused HTC devices are "covered" by the patentsin-suit, it does not claim to have invented the first handheld data collection device, portable scanning device, camera phone, web browser, or client server merchandising system. Nor does DataQuill claim to have invented data communications using cellular phones or telecommunications standards. Rather, the patents-in-suit claim coverage over combinations of concepts and/or features that were already generally known before DataQuill's claimed invention.

Notably, the accused HTC devices are packed with technology and features that are completely unrelated to the patents-in-suit—including, for instance, e-mail, voice dialing, text messaging, PDF and video viewing, and WiFi connectivity, just to name a few. To provide these and other unrelated features, HTC has incurred significant research and development costs. HTC itself owns approximately 140 U.S. patents.

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5	C. DataQuill's Damages Theory
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III. LEGAL STANDARDS

A. Legal Standard For The Admission Of Expert Testimony

"District judges are the gatekeeper for expert testimony to assure that it is both relevant and reliable." *Avila v. Willits Envt'l Remediation Trust*, 633 F.3d 828, 836 (9th Cir. 2011) (citing *Daubert v. Merrill Dow Pharm., Inc.*, 509 U.S. 579, 592-93 (1993)). Under Federal Rule of Evidence 702, expert testimony is admissible only where: "(1) the testimony is based upon sufficient facts or data, (2) the testimony is the product of reliable principles and methods, and (3) the witness has applied the principles and methods reliably to the facts of the case." Fed. R. Evid. 702.

Reliable testimony must be grounded "in the methods and procedures of science" and signify knowledge beyond "subjective belief or unsupported speculation." *Daubert*, 509 U.S. at 590. Thus, an expert's testimony should be excluded when it is based on subjective beliefs or unsupported speculation which is no more than unreliable *ipse dixit* guesswork. *See, e.g., Gen. Elec. Co. v. Joiner*, 522 U.S. 136, 146 (1997) (holding that trial court may properly exclude *ipse dixit* opinions where "there is simply too great an analytical gap between the data and the opinion proffered"); *Domingo ex rel. Domingo v. T.K.*, 289 F.3d 600, 607 (9th Cir. 2002) (affirming the exclusion of the *ipse dixit* testimony of plaintiff's expert that was not based upon objective, verifiable evidence). Expert testimony is also inadmissible when it is inconsistent with governing legal principles. *See DSU Med. v. JMS Co., Ltd.*, 296 F. Supp. 2d 1140, 1156 (N.D. Cal. 2003) ("In *Daubert-Kumho* 'gatekeeper' terms, the proffered expert testimony ... relies upon a legal 'principle' that is not legally acceptable to this Court and the testimony is, to that extent, inadmissible.").

The proponent of expert testimony must establish its admissibility by a preponderance of evidence. *Bourjaily v. United States*, 483 U.S. 171, 175-76 (1987).

B. Legal Standards Governing Damages In The Form Of A "Reasonable Royalty"

A patent holder who proves infringement of a valid patent is entitled to damages adequate to compensate for the infringement. "The patentee bears the burden of proving damages," and to carry that burden it "must sufficiently [tie the expert opinion on damages] to the facts of the

1	case." Uniloc USA, Inc. v. Microsoft Corp., 632 F.3d 1292, 1315 (Fed. Cir. 2011) (quoting
2	Daubert, 509 U.S. at 591)).
3	One measure of damages, REDACTED is a "reasonable
4	royalty." ⁵ See 35 U.S.C. § 284. One form of a reasonable royalty is called a "lump sum."
5	Typically, a lump sum is a one-time payment made as of the time an agreement is entered, and i
6	typically compensates for past infringement as well as a license going into the future, through the
7	expiration of the licensed patents. Lucent Techs., Inc. v. Gateway, Inc., 580 F.3d 1301, 1326
8	(Fed. Cir. 2009). Another form of reasonable royalty,
9	is known as a "running royalty." "In a standard running royalty license, the amount of money
10	payable by the licensee to the patentee is tied directly to how often the licensed invention is
11	used or incorporated into products by the licensee." <i>Id.</i> A running royalty typically is calculated
12	by multiplying a royalty base (such as the number of units of an infringing product) by a royalty
13	rate (such as a number of cents per unit).
14	Whether the hypothetical agreement calls for a lump sum payment or a running royalty
15	"a 'reasonable royalty' derives from a hypothetical negotiation between the patent owner and the
16	infringer when the infringement began." ResQNet.com, Inc. v. Lansa, Inc., 594 F.3d 860, 868
17	(Fed. Cir. 2010). "The hypothetical negotiation tries, as best as possible, to recreate the ex ante
18	licensing scenario and to describe the resulting agreement." Lucent Techs., 580 F.3d at 1325.
19	"A comprehensive (but unprioritized and often overlapping) list of relevant factors for a
20	reasonable royalty calculation appears in Georgia-Pacific Corp. v. U.S. Plywood Corp., 318 F
21	Supp. 1116 (S.D.N.Y. 1970)." ResQNet, 594 F.3d at 869. Although the Federal Circuit "has
22	sanctioned the use of Georgia-Pacific factors to frame the reasonable royalty inquiry
23	evidence purporting to apply to these, and any other factors, must be tied to the relevant facts and
24	circumstances of the particular case at issue and the hypothetical negotiations that would have
25	taken place in light of those facts and circumstances at the relevant time." Uniloc, 632 F.3d at
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27	⁵ When the patent owner does not practice the patents-in-suit (<i>i.e.</i> , make or sell products embodying the claimed invention), in the event of liability, the typical form of damages awarded
28	to the patent owner is called a "reasonable royalty". Because DataQuill is a so-called "non-practicing entity," it would not be entitled to lost profits — which is the other measure of patent-

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1	1317-18. "[T]he damages inquiry must concentrate on compensation for the economic harm
2	caused by infringement of the claimed invention." ResQNet, 594 F.3d at 869. Thus, "[a]ny
3	evidence unrelated to the claimed invention does not support compensation for infringement but
4	punishes beyond the reach of the statute." <i>Id</i> .
5	IV. ARGUMENT
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21	The first <i>Georgia Pacific</i> factor to be considered in a reasonable royalty analysis is "the
22	royalties received by the patentee for the licensing of the patent in suit, proving or tending to
23	prove an established royalty." <i>ResQnet</i> , 594 F.3d at 869 (quoting <i>Georgia-Pacific</i> , 318 F. Supp.
24	at 1120).
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28	infringement damages.
	7 HTC'S MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT OF MOTION TO EXCLUDE THE

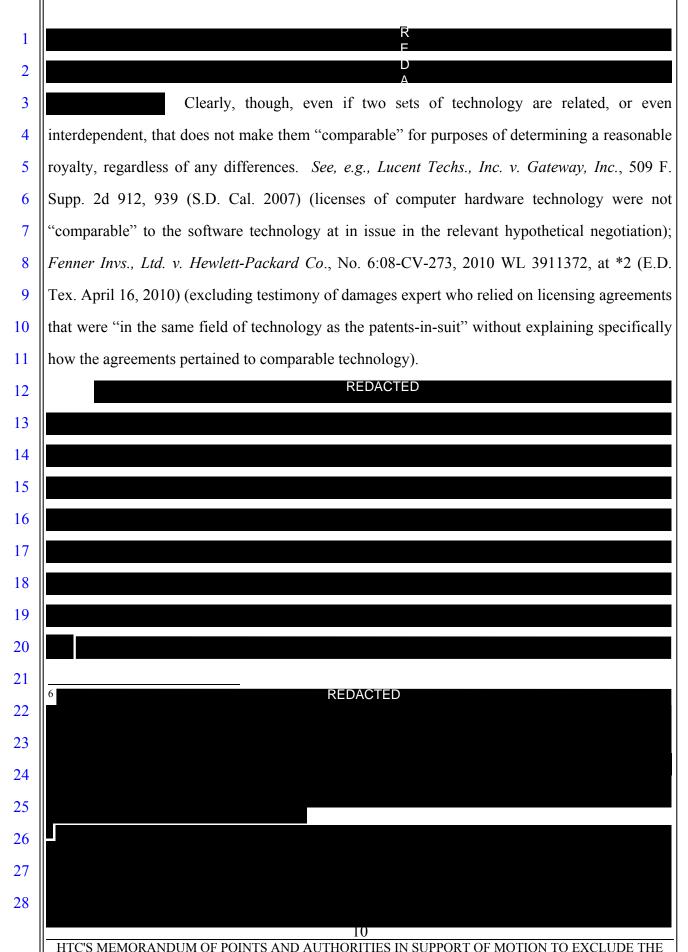
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The Federal Circuit has "long required district courts performing reasonably royalty calculations to exercise vigilance when considering past licenses to technologies other than the patent in suit." *ResQNet*, 594 F.3d at 870. It has also repeatedly and consistently held that "there must be a basis in fact to associate the royalty rates used in prior licenses to the particular hypothetical negotiation at issue in the case." *Uniloc*, 632 F.3d at 1317. Thus, in *Lucent Technologies*, the Federal Circuit recently rejected a patentee's reliance on "eight varied license agreements," where the specific subject matter of the agreements was either not explained to the jury or the license was "directed to a vastly different situation than the hypothetical licensing scenario of the present case." 580 F.3d at 1327-31. The court also noted that, for four of the patents, the patentee did not describe the relationship between the patented technology licensed therein and the licensee's products. *Id.* at 1330. As the court explained: "[A] lump-sum damages award cannot stand solely on evidence which amounts to little more than a recitation of royalty numbers, one of which is arguably in the ballpark of the jury's award, particularly when it is doubtful that the technology of those agreements is in any way similar to the technology being litigated here." *Id.* a1329.

Similarly, in *ResQNet*, the Federal Circuit held that the patentee's expert improperly inflated his royalty conclusion by relying on licenses that did not mention the patents-in-suit or show "any other discernable link to the claimed technology." 594 F.3d at 870. Rejecting the expert's testimony and vacating the damages award, the court cautioned that on remand "the trial court should not rely on unrelated licenses to increase the reasonably royalty rate above rates more clearly linked to the economic demand for the claimed technology." *Id.* at 872-73.

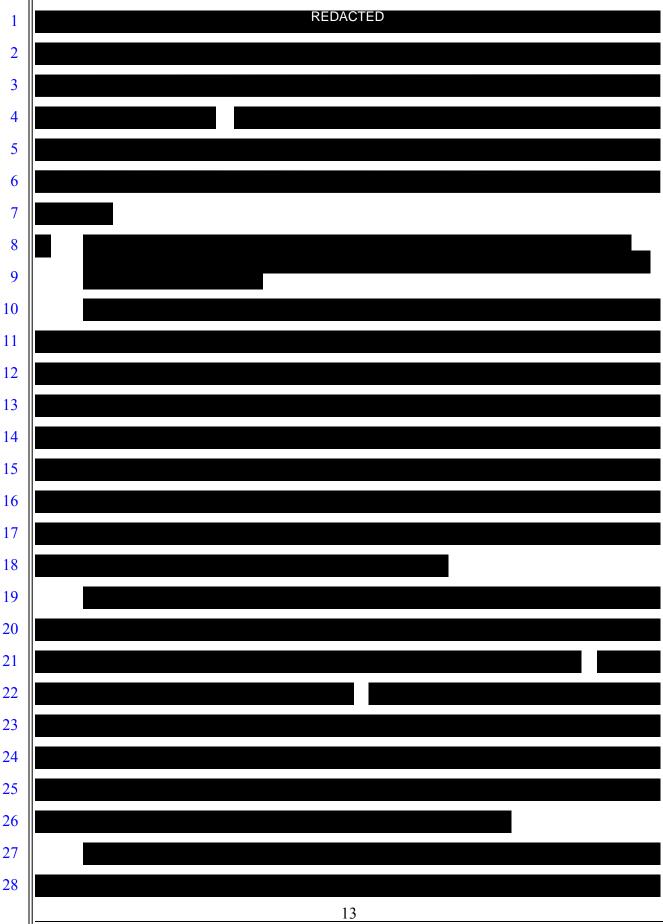
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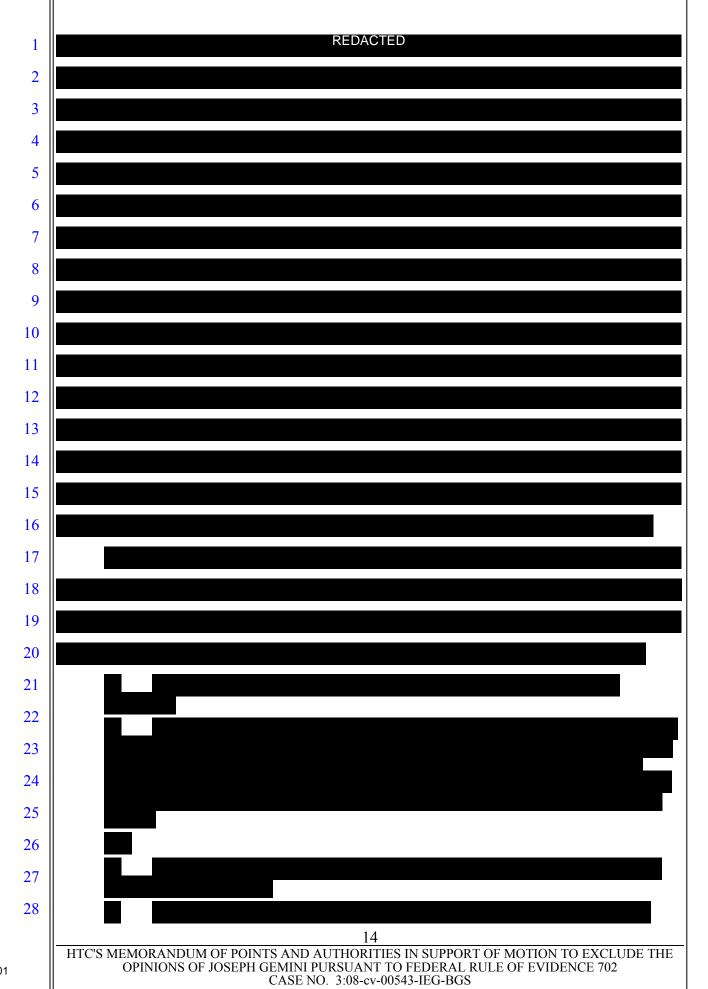
1	Countless other decisions further confirm the black-letter rule that "licenses relied on by
2	the patentee in proving damages [must be] sufficiently comparable to the hypothetical license at
3	issue in suit," Lucent Techs., 580 F.3d at 1325, and "comparisons of past patent licenses to the
4	infringement must account for 'the technological and economic differences' between them,"
5	Wordtech Sys., Inc. v. Integrated Networks Solutions, Inc., 609 F.3d 1308, 1320 (Fed. Cir. 2010)
6	(quoting ResQNet, 594 F.3d at 870)); Trell v. Marlee Elecs. Corp., 912 F.2d 1443, 1446-47 (Fed.
7	Cir. 1990) (reversing reasonable-royalty award that relied on licenses that covered a broader
8	range of technology than the patents-in-suit). In one such decision, the district court excluded an
9	opinion on reasonable royalty damages by Mr. Gemini himself because he improperly relied on a
10	study of industry license agreements that "encompass much more than the [patented] feature at
11	issue in [the] case" to justify a reasonably royalty that was "much higher than the existing royalty
12	rates for licenses to the patents-in-suit." See IP Innovation, LLC v. Red Hat, Inc., 705 F. Supp.
13	2d 687, 690-91 (E.D. Tex. 2010).
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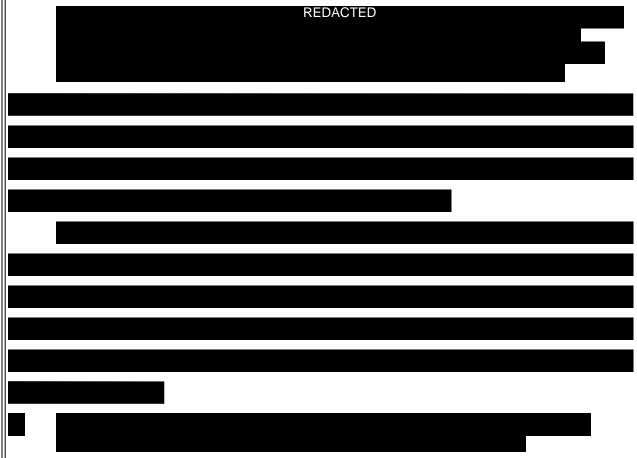


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Qualcomm, for instance, is "an industry leader in the development of CDMA and related
technologies" whose patent portfolio consists of "approximately 12,600 U.S. patents and
applications and approximately 59,000 foreign granted patents and applications." Wi-LAN, Inc.
v. Research in Motion Corp., No. 10cv859-W (CAB), 2010 WL 2998850, at *2 (S.D. Cal. July
28, 2010). In the Wi-LAN case, the plaintiff, Wi-LAN (a non-practicing entity, like DataQuill)
sought to subpoena Qualcomm's CDMA licensing agreements, asserting that they were
probative of the reasonable royalty that RIM would have agreed to pay for the use of two Wi-
LAN patents relating to CDMA technology. The court disagreed and quashed the subpoena
holding that "Qualcomm's licenses for its CDMA patents have extremely little, if any
relevance, to Wi-LAN's hypothetical negotiation for its CDMA patent with the defendants in the
[underlying] action." Id. at *5 (noting further that "there was no evidence that the numerous
global patents included in the Qualcomm licenses are analogous or comparable inventions to the
Wi-LAN patents at issue, other than Wi-LAN's generic statement that they are for CDMA
technology").
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OPINIONS OF JOSEPH GEMINI PURSUANT TO FEDERAL RULE OF EVIDENCE 702 CASE NO. 3:08-cv-00543-IEG-BGS







To properly calculate a reasonable royalty based on a running royalty rate, patentees generally are not entitled to use the entire value of the accused products, but instead must "separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features." *Uniloc*, 632 F.3d at 1318 (citing *Garretson v. Clark*, 111 U.S. 120 (1884); *see also Mirror Worlds*, *LLC v. Apple, Inc.*, No. 6:08CV88, 2011 WL 1304488,at *18 (E.D. Tex. April 4, 2011) (vacating damages award because the patentee "was obligated to properly apportion the royalty base to address the accused features, which it did not do"). Patentees can be excepted from the obligation to apportion the royalty base only by properly invoking the "entire market value rule," which "allows a patentee to assess damages based on the entire market value of the accused product" upon showing that "the patented feature creates the basis for customer demand or substantially create[s] the value of the component parts." *Uniloc*, 632 F.3d at 1318 (internal citations and quotations omitted). The fact that the infringing and non-infringing parts are sold together for business advantage is insufficient to invoke the entire market value rule. *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1549-50

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(Fed. Cir. 1995). Moreover, "Supreme Court and [Federal Circuit] precedents do not allow consideration of the entire market value of accused products for minor patent improvements simply by asserting a low enough royalty rate." *Uniloc*, 632 F.3d F.3d at 1320. "Unless a party satisfies the entire market value test, a patentee seeking damages for a component cannot use the entire market value of the larger product as a royalty base." Lucent Techs., Inc. v. Microsoft Corp., 2011 WL 2728317, at *5 (S.D. Cal. July 13, 2011). REDACTED See, e.g., Lucent, 2011 WL 2728317, at *7 (excluding opinion of damages expert who erroneously failed to separate between patented and unpatented features); Oracle Am., Inc. v. Google, Inc., No. C 10-03561 WHA, 2011 WL 2976449, at *4 (N.D. Cal. July 22, 2011) (same; "The fact that Java may be a critical component of Android does not justify application of the entire market value rule. Wheels are critical to an automobile, but no one would apportion all of

1	the demand for a car to just the wheels."); Cornell Univ. v. Hewlett-Packard Co., 609 F. Supp
2	2d 279, 287-90 (N.D.N.Y. 2009) (excluding testimony of damages expert who offered tria
3	testimony that HP's total server and work station revenues were the appropriate royalty base, in
4	derogation of the court's exclusion order).
5	V. CONCLUSION
6	Mr. Gemini's damages report and related opinions fail to satisfy the admissibility
7	requirements of Rule 702 or the Supreme Court's directives in <i>Daubert</i> and <i>Kuhmo Tire</i> .
8	Accordingly, HTC respectfully requests the Court to exclude his opinions and testimony from
9	any trial of this matter.
10	
11	Dated: September 26, 2011 Respectfully submitted,
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13	By: /s/ Leo L. Lam
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